Addressing Funding Gaps in Section 515 & Farm Labor Housing (514/516) Transactions

April 6, 2022
Objective: To Provide Clear Guidance on How To Address Cost Increases and Funding Gaps in RD Direct Loan Transactions

- Overview of Organizational Structure
- Overview of Applicable Programs
- Addressing Cost Increases / Processing Delays in Current Climate
  - Construction Cost Increases
  - Labor Shortages
  - Supply Chain Issues
  - Third Party Report Procurement
  - Carrying Costs Related to Schedule Delays
- Identifying Appropriate Pathways for All Three Categories of Transactions
- Overview of FLH Process Improvements in Realigned Model
Multifamily Housing Organizational Structure

Multifamily Housing Deputy Administrator’s Office
- Nancy Ann Bedell, Deputy Administrator
- Vacant, Assistant Deputy Administrator
- Michael Steininger, Senior Policy Advisor
- Monika Kehoe, Management & Program Analyst

State Offices
Marketing & Outreach

Field Operations Division
Ernie Wetherbee, Director
- Northeast Region
  - Northeast Routine Servicing Teams 1-4
  - Northeast Troubled Asset Servicing Team
- South Region
  - South Routine Servicing Teams 1-9
  - South Troubled Asset Servicing Team
- Midwest Region
  - Midwest Routine Servicing Teams 1-8
  - Midwest Troubled Asset Servicing Team
- West Region
  - West Routine Servicing Teams 1-4
  - West Troubled Asset Servicing Team

Production & Preservation Division
Derek Reiger, Director
- Processing & Report Review Branch 1 (Northeast & Midwest)
- Processing & Report Review Branch 2 (South & West)
- Underwriting Branch 1 (Northeast & Midwest)
- Underwriting Branch 2 (South & West)
- Closing Branch
- Program Support Branch

Asset Management Division
Jen Larson, Director
- Portfolio Management Branch
- Servicing Support Branch
- Risk & Counterparty Oversight Branch
- Policy & Budget Branch

Detailed View of Divisions
- Production & Preservation – See Slide 8
- Asset Management Division – See Slide 4
- Field Operations – See Slide 5
- Northeast Region – See Slide 6
- South Region – See Slide 7
- Midwest Region – See Slide 8
- West Region – See Slide 9
Production & Preservation Leadership Team

Dan Rogers, Director
Carlton Jarratt, Senior Policy Advisor
Stephanie Vergin, Credit Sourcing Officer
Alex Renton, Management Analyst
Vacant, Chief Credit Officer

Processing & Report Review
Jonathan Bell
Division Director
Michelle O’Meara
Branch Chief
PRR1 (NE & MW)
Katrina Mosely
Branch Chief
PRR2 (South & West)

Underwriting
Jason Church
Division Director
Scott Pousson
Branch Chief
UWB1 (NE & MW)

Closing
Adam Hauptman
Branch Chief
Yvette Spriggs
Branch Chief
UWB2 (South & West)

Program Support
Abby Boggs
Branch Chief
## Addressing Cost Increases in 515 and Farm Labor Housing (514/516) Transactions

<table>
<thead>
<tr>
<th>Current Transaction Types</th>
<th>Future Transaction Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awarded FLH New Construction</td>
<td>All the “current transactions”, plus:</td>
</tr>
<tr>
<td>515 &amp; FLH Preservation Transactions</td>
<td>FLH Repair Transactions</td>
</tr>
<tr>
<td>515 &amp; FLH Transfers</td>
<td>515 New Construction</td>
</tr>
</tbody>
</table>

Multifamily Housing Direct Loan Programs:

- **Section 515**
- **Farm Labor Housing**: Section 514 (Loans) & Section 516 (Grants)
- **Note: also including Multifamily Preservation & Rehabilitation (MPR) Program**
### Transparent Categorization of Transactions

- **Category 1:** Properties that have closed on FLH or 515 Financing and therefore eligible for Subsequent Loan
  - Governed by Regulation 7 CFR 3560.73
  - Discussed in Handbook 1-3560 Chapter 10
  - Closed, in / about to start construction or construction complete

- **Category 2:** Properties that have **not** closed on FLH or 515 Financing, but can be assisted under applicable NOSA
  - Properties with a funding gap that, when combined with initial award, are under their NOSA Cap
  - NOSAs that identified a per-project or per-unit award cap
  - Example:

<table>
<thead>
<tr>
<th>Initial Award</th>
<th>Funding Gap</th>
<th>Total Need</th>
<th>NOSA Cap</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.2 million</td>
<td>$700,000</td>
<td>$2.9 million</td>
<td>$3 million</td>
<td>Category 2</td>
</tr>
<tr>
<td>$2.2 million</td>
<td>$1.3 million</td>
<td>$3.5 million</td>
<td>$3 million</td>
<td>Category 3</td>
</tr>
</tbody>
</table>

- **Category 3:** Properties that have **not** closed and **cannot** be assisted under applicable NOSA
  - Properties with a funding gap that, when combined with initial award, exceed their NOSA Cap
  - NOSAs that identified a per-project award cap
**Category 1: Properties that have closed on RD Direct Loan and therefore eligible for Subsequent Loan**

Handbook 1-3560 Chapter 10:

- Subsequent loans may be made to current borrowers for a project with Agency financing to complete, improve, repair, or make modifications to the project;

- Complete a project when there have been unforeseen factors beyond the owner’s control, including:
  - Design changes that were required by the Agency or Local Government,
  - Changes in financing
  - When the cost of completing the project has escalated due to excessive delays in constructing the project.

- Subsequent loan funds **may not be used** to reimburse an owner for additional owner contributions that were made to complete a project.

- May be used to convert additional construction or bridge financing approved by the agency to permanent debt.
**Category 1: Properties that have closed on RD Direct Loan and therefore eligible for Subsequent Loan**

<table>
<thead>
<tr>
<th>Rates &amp; Terms</th>
<th>Restrictive Use Provisions</th>
<th>Application Requirements</th>
<th>Underwriting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Separate Loan</td>
<td>• Projects receiving subsequent loans are also subject to additional restrictive-use provisions in accordance with 7 CFR 3560.662.</td>
<td>P2: Invites the applicant to attend a meeting to discuss the subsequent loan application.</td>
<td>P2 to Review:</td>
</tr>
<tr>
<td>• Set to the applicable rates and terms at the time of the closing</td>
<td>• When a subsequent loan is made, a new 20-year restrictive-use period on the project begins as of the date of subsequent loan closing.</td>
<td>P2: Provides a list of required documentation (Exhibit 10-2, Chapter 10 of 3560 Handbook)</td>
<td>• Applicant Eligibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Applicant: Provides list of required and updated documentation, including 3rd party documents and reports</td>
<td>• Project Eligibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Cost Reasonableness</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Financial Feasibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Other sources of Financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Sufficient Loan Security</td>
</tr>
</tbody>
</table>
Category 1: Properties that have closed on RD Direct Loan and therefore eligible for Subsequent Loan

Exhibit 10-2

Documentation to be Submitted for a Subsequent Loan to Complete, Improve, Repair, or Modify an Existing Project

- Form SF 424 A, Application for Federal Assistance;
- Form RD 1944-37, Previous Participation Certification;
- The method of financing construction;
- Drawings, specifications, and a contract document that meets the requirements of Paragraph 9.10 B;
- The estimated total development cost, the cost per unit and the estimated loan amount (Form RD 1924-13, Estimate and Certificate of Actual Cost);
- Scope of work (not necessary for loans to complete a project);
- Signed statement regarding cost overruns;
- Information on architectural, engineering, and legal services and proposed contractor;
- Forms RD 3560-30, Certification of No Identity of Interest (IOI) and RD 3560-31, Identity of Interest Disclosure/Qualification Certificate;
- Change in related assistance;
- Detailed operating budget (Form RD 3560-7, Multiple Family Housing Project Budget/Utility Allowance);
- Demonstrated ability of cooperative to self-manage, if applicable;
- Updated financial statements; and
- Form RD 1910-11, Applicant Certification Federal Collection Policies for Consumer or Commercial Debts.
Category 2: Not Closed and Eligible Under Applicable NOSA

- Farm Labor Housing New Construction NOSAs have a per-project award cap (typically $3 million)
- Applications that have not closed on their financing are continued to be monitored for financial feasibility
- Amendments to awards and rent setting may be made to address financial feasibility, when necessary, at the discretion of the agency
- If your initial award + the funding gap requested = **less than** the NOSA cap under which the award was given:
  - Applicant may request an amendment to their initial award
  - If eligible, applicant may request modification (grants vs. loans)
  - Application will be reviewed in accordance with applicable NOSA application guidance
## Category 2: Not Closed and Eligible Under Applicable NOSA

<table>
<thead>
<tr>
<th>Rates &amp; Terms</th>
<th>Restrictive Use Provisions</th>
<th>Application Requirements</th>
<th>Underwriting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Single loan closing</td>
<td>• No change to initial Restrictive Use Provision</td>
<td>P2: Invites the applicant to attend a meeting to discuss the need for additional funds.</td>
<td></td>
</tr>
<tr>
<td>• Amendment to Initial Award Amount</td>
<td></td>
<td>P2: Provides a list of required documentation, including:</td>
<td></td>
</tr>
<tr>
<td>• Increase is added to and included in Rates and Terms of Initial Loan</td>
<td></td>
<td>• Any applicable updates to information submitted as part of initial application</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Updated Sources &amp; Uses</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Updated Operating Budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Support Documentation / Evidence of Cost Increase</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Updated 3rd Party Reports (if necessary)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Applicant: Provides list of required documentation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>P2 to Review:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Cost Reasonableness</td>
</tr>
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<td></td>
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Category 3: Not Closed and Ineligible Under Applicable NOSA

- Farm Labor Housing New Construction NOSAs have a per-project award cap (typically $3 million).
- Applications that have not closed on their financing are continued to be monitored for financial feasibility.
- If your initial award + the funding gap requested = more than the NOSA cap under which the initial award was given:
  - Applicant may request additional funds in subsequent FLH New Construction NOSA.
  - Next NOSA is schedule for mid-May 2022.
  - Applicants only need to apply for gap financing request.
  - May apply for loan or grant, in accordance with eligibility.
  - Application will be reviewed in accordance with applicable NOSA application guidance.
  - Awards are subject to individual NOSA per-project award caps, not cumulative under a single cap.
  - Example: Project has a $3 million award from 2019 (NOSA cap was $3 million). Project needs $2.2 million in gap financing in 2022 (NOSA cap is $5 million). Project is eligible for $2.2 million in gap financing because request is below 2022 NOSA cap of $5 million.
**Category 3: Not Closed and Ineligible Under Applicable NOSA**

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<tr>
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<th>Application Requirements</th>
<th>Underwriting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Single loan closing</td>
<td>• No change to initial Restrictive Use Provision</td>
<td>P2: Invites the applicant to attend a meeting to discuss the need for additional funds.</td>
<td>P2 to Review:</td>
</tr>
<tr>
<td>• Addition to Initial Award Amount</td>
<td></td>
<td>Applicant: Provides list of required documentation under the NOSA, including updated</td>
<td>• Compliance with the NOSA, including:</td>
</tr>
<tr>
<td>• Increase is added to and included in Rates and Terms of Initial Loan</td>
<td></td>
<td>updated third party and project documents from original application</td>
<td>• Eligibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Cost Reasonableness</td>
</tr>
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</tbody>
</table>
### P2 Snapshot: Status of P2 NOFAs & NOSAs

<table>
<thead>
<tr>
<th>NOSA / NOFA / RFP</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Off-Farm Labor Housing New Construction Round 1</td>
<td>COMPLETE: Awards Announced 9/30/21</td>
</tr>
<tr>
<td>Off-Farm Labor Housing New Construction Round 2</td>
<td>Closed: 11/1/21, Final Applications Due 5/2/22</td>
</tr>
<tr>
<td>MFH NP Tech Assistance Grant</td>
<td>Closed: 2/8/22, Awards Announcement in June</td>
</tr>
<tr>
<td>FLH Technical Assistance Grant</td>
<td>Closed 3/21/22, Awards Announcement in July</td>
</tr>
<tr>
<td>Off-Farm Labor Housing Repair</td>
<td>Published 3/9/22, Workshop 4/13, Apps due 5/9</td>
</tr>
<tr>
<td>MPR No-Cost Debt Deferral NOSA</td>
<td>Published 3/15/22, Workshop 4/5/22, Apps due 5/16</td>
</tr>
<tr>
<td>Off-Farm Labor Housing New Construction Round 3</td>
<td>Target Publication: May 14, 2022</td>
</tr>
<tr>
<td>Section 538 Guaranteed Loan Program</td>
<td>Ongoing Applications / Rolling</td>
</tr>
</tbody>
</table>
Farm Labor Housing Process Improvements Since MFH Realignment

- Enhanced transparency with NOSAs, NOFAs, Requests for Additional Funds
- Enhanced communication with Industry (listening sessions, industry workshops)
- Enhanced communication with Industry when applications are not funded
- Improvements to FLH Technical Assistance Program Delivery
- Enhanced NOSA Compatibility with Local-, State-, and Federal-funding Rounds
  - Modified NOSA Application Requirements (effective Round 3)
  - Modified Commitment Letters (effective Round 3)
- Developed Job Aid / SOP for Staff for Consistency in RD Guidance / Application Review of Requests for Additional Funds
- Transparent organization of transactions into “3 buckets” to address cost overruns
- Enhanced communication with industry partners, working groups, and other public lenders
- Standing weekly meetings with P2 management & staff
- Enhanced NOSA Predictability: Beginning in FY23, MFH will have a single FLH NC & Repair NOSA in January
Questions & Answers

Daniel.Rogers2@usda.gov